

MORIHARA LAU & FONG LLP
A LIMITED LIABILITY LAW PARTNERSHIP

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August 27, 2009

PUBLIC UTILITIES
COMMISSION

The Honorable Chairman and Members of
the Hawaii Public Utilities Commission
465 South King Street
Kekuanaoa Building, Room 103
Honolulu, Hawaii 96813
Attention: Michael Azama, Esq.

Re: Docket No. 2009-0048 – In the Matter of the Application of Molokai Public
Utilities, Inc. ("MPU"), for review and approval of rate increases; revised rate
schedules; and revised rules: MPU's Customer Notice

Dear Commissioners and Commission Staff:

Pursuant to Hawaii Revised Statutes § 269-12(c), MPU confirms that its customers and patrons were notified of the proposed change in rates, and the time and place of the public hearing with regards to the above-referenced docket by means of a customer notice mailed out to each of MPU's customers on August 17-18, 2009. A copy of the customer notice dated August 12, 2009 that was provided to MPU's customers, as noted above, is enclosed for your information.

Thank you for your consideration in this matter. Should you have any questions, please do not hesitate to contact the undersigned.

Very truly yours,



Michael H. Lau
Yvonne Y. Izu
Sandra L. Wilhide

Morihara Lau & Fong LLP
Attorneys for Molokai Public Utilities, Inc.

Enclosure
c w/enclosure:
Consumer Advocate
Mr. Peter A. Nicholas

MOLOKAI PUBLIC UTILITIES, INC.

Date: August 12, 2009
To: All Customers
Subject: Public Hearing on Proposed Rate Increase
September 3, 2009, 5:00 p.m.
Mitchell Pauole Center Conference Room

As you may know, Molokai Public Utilities, Inc., ("MPU") filed an amended application with the Hawaii Public Utilities Commission ("PUC") on June 29, 2009, seeking approval to, among other things, increase the water rates and charges presently in effect. MPU has been authorized by the PUC to provide water service since 1981. Currently we serve customers within the Kaluakoi area on the west end of the island of Molokai.¹

MPU's current rates do not now and will not in the foreseeable future produce sufficient revenues to allow us to even recover our prudently incurred expenses. At present rates, MPU projects a 2009-2010 test year net operating loss of \$498,176 and a negative rate of return of 50.01% on an average rate base of \$996,161 (Exhibits MPU 6 and MPU 9). The proposed increase in rates and charges is designed to eliminate these current ongoing losses and to allow us to recover our prudently earned expenses and earn a small return. Even if our proposed increase in rates and charges is approved, MPU will likely achieve revenues that are only slightly above breakeven. Pursuant to the amended application, MPU, in effect, is seeking PUC approval for an overall net revenue increase of \$886,259, or an approximate 201.50% increase over present revenue rates.²

In order to mitigate or reduce the impact of the proposed increases on our customers, MPU is proposing a two stage phase-in of its proposed increase in rates and charges.³ If approved by the PUC, Phase I is proposed to go into effect upon the issuance of an order by the PUC approving the proposed increases ("Phase I Effective Date"), and Phase II is proposed to go into effect six months after the Phase I Effective Date. This phase-in, as illustrated below, delays the start of full revenue recovery by approximately 6 months for MPU if the PUC approves the new, proposed revenue requirements requested by MPU.

¹ MPU currently provides potable and non-potable water service to the Kaluakoi Resort, Ke Nani Kai and Paniolo Hale Condominiums, Kaluakoi Villas, Papohaku Ranchlands, Moana Makani subdivisions, and Maui County parks.

² Based on the temporary rates currently in effect and authorized pursuant to the Order Approving Temporary Rate Relief, issued in Docket No. 2008-0115 on August 14, 2008 ("Temporary Rate Order") and the Order Approving Extension of Temporary Rate Relief and Request for an Extension to File General Rate Case Applications, issued on February 28, 2009 in the same docket ("Order Approving Extension"), MPU's proposed net revenue increase amounts to \$565,939, which is an approximate 74.6% increase from the pro forma revenue amount of \$758,958 at the temporary rate for the 2009-2010 test year (Exhibit MPU 11).

³ We have taken certain steps to reduce or at least mitigate the impact that these proposed increases will have on you. First, we have proposed to phase-in the increases to allow you to better plan for them. In addition, instead of seeking the normal 8-10% return on investment that the PUC generally provides to utilities, we have requested approval at this time of only a 2% rate of return on MPU's investment in its water operations. Notwithstanding this, however, and as set forth in the amended application, MPU does reserve the right to seek a higher rate of return in this and future rate case proceedings, especially if the amount of MPU's requested revenue increase is materially reduced or lowered during the course of this proceeding from what is currently being sought in the amended application.

The following summarizes MPU's proposed increase in rates and charges to be applied in

a two stage phase-in process:

USER CHARGES:

	Present Rate/ Charge	Temporary Rate/ Charge*	Phase I Proposed Rate/ Charge	Phase II Proposed Rate/ Charge	Total Percent Increase Over Present Rates
1. Deposit prior to commencement of services	\$ 50.00	\$ 50.00	\$ 100.00	\$ 100.00	100%
2. Water Consumption Charge per month per 1000 gallons	\$ 3.18	\$ 6.04	\$ 7.9996	\$ 9.6061	202.2%
3. Standby charge per month (per installed meter)					
5/8" or 3/4"	\$ 11.25	\$ 11.25	\$ 28.00	\$ 34.00	202.2%
1"	\$ 15.00	\$ 15.00	\$ 38.00	\$ 45.00	202.2%
1-1/2"	\$ 22.50	\$ 22.50	\$ 57.00	\$ 68.00	202.2%
2"	\$ 37.50	\$ 37.50	\$ 94.00	\$ 113.00	202.2%
3"	\$ 75.00	\$ 75.00	\$ 188.00	\$ 226.00	202.2%
4"	\$ 112.50	\$ 112.50	\$ 282.00	\$ 340.00	202.2%
6"	\$ 225.00	\$ 225.00	\$ 565.00	\$ 678.00	202.2%
8"	\$ 375.00	\$ 375.00	\$ 942.00	\$ 1,131.00	202.2%
4. Private fire protection rates per month:					
Per Hydrant	\$ 5.25	\$ 5.25	\$ 7.95	\$ 10.61	202.2%
Per Standpipe	\$ 3.00	\$ 3.00	\$ 4.54	\$ 6.06	202.2%
Others: Per in diameter of feed main	\$ 3.75	\$ 3.75	\$ 5.68	\$ 7.58	202.2%
5. Monthly water availability charge to each owner of each lot at which a service connection is possible but has not been applied for	\$ 3.00	\$ 3.00	\$ 4.54	\$ 6.06	202.2%
6. Contribution for tap-in					
5/8" or 3/4"	\$ 150.00	\$ 150.00	\$ 150.00	\$ 150.00	0%
1"	\$ 300.00	\$ 300.00	\$ 300.00	\$ 300.00	0%
1-1/2"	\$ 525.00	\$ 525.00	\$ 525.00	\$ 525.00	0%
2"	\$ 750.00	\$ 750.00	\$ 750.00	\$ 750.00	0%
3"	\$ 1,500.00	\$ 1,500.00	\$ 1,500.00	\$ 1,500.00	0%
4"	\$ 3,000.00	\$ 3,000.00	\$ 3,000.00	\$ 3,000.00	0%
6"	\$ 4,500.00	\$ 4,500.00	\$ 4,500.00	\$ 4,500.00	0%
8"	\$ 6,750.00	\$ 6,750.00	\$ 6,750.00	\$ 6,750.00	0%
7. Reconnection Fee	\$ 75.00	\$ 75.00	\$ 150.00	\$ 150.00	100%
8. Inspection fee where user installs tap-in and meter	Actual Cost**	Actual Cost**	Actual Cost**	Actual Cost**	0%
9. Bulk Water Sales per month per 1000 gallons (Kualapuu Bulk Sale Contract)	\$ 1.125	\$ 1.125	\$ 2.8301	\$ 3.3984	202.2%
10. Temporary fire hydrant water use charge***					

* As discussed more fully in footnote 2 of the amended application, pursuant to the Temporary Rate Order and the Order Approving Extension, MPU's consumption charge of \$3.18 per 1,000 gallons was temporarily increased to \$6.04 per 1,000 gallons.

** Not less than \$37.50.

*** For water taken on a temporary basis from a hydrant pursuant to the prior written permission of MPU, the charge will be the highest consumption rate approved by the PUC in effect at the time of such use, plus, with regard to the need to meter the temporary water use, a meter charge equivalent to the monthly stand-by charge for the applicable meter size.

In addition to the above, MPU is also requesting that it be authorized to establish (1) an Automatic Power Cost Adjustment Clause, which permits adjustments for electric costs during the year, and (2) a Purchased Fuel Adjustment Clause for the fuel component of our water costs.

The PUC will review all of MPU's requests described above and in its amended application and other supporting materials submitted as part of the record, and render a decision after receiving input from the Consumer Advocate's office, which is statutorily responsible for representing, protecting and advancing the interests of all customers. Regarding our water operations, the total revenue requirements for the 2009-2010 test year will not exceed the \$886,259 annual revenue increase over revenues at present rates that we request. Please note, however, that the increase in rates and charges to be finally approved by the PUC, if any, may be higher or lower than the proposed water rates and charges noted above.

The PUC has scheduled a public hearing on this proposed rate increase to allow MPU's customers to state their views to the PUC. MPU's customers are invited to attend this public hearing to find out more about the proposed increases and voice any concerns.

Public Hearing To Be Held September 3, 2009 at 5:00 p.m.

The PUC's public hearing on the proposed action will be held as follows:

DATE: September 3, 2009
LOCATION: Mitchell Pauole Center Conference Room
90 Ainoa Street
Kaunakakai, Molokai
TIME: 5:00 p.m.

We encourage you to attend. Copies of MPU's amended application are available for public viewing at MPU's Molokai office located at 100 Maunaloa Highway, Maunaloa, HI 96770 between the hours of 8:00 a.m. and 3:00 p.m.; Phone: (808) 552-2444.

MPU is here to serve you. We believe this proposed rate increase will allow us to better serve you and the surrounding community.

We thank you for your consideration.



Elaine Hammond
Treasurer
Molokai Public Utilities, Inc.